

HENRY COUNTY, IOWA

**Independent Auditors' Reports
Basic Financial Statements
and Supplementary Information
Schedule of Findings**

June 30, 2004

HENRY COUNTY, IOWA

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HENRY COUNTY, IOWA

Officials

| <u>Name</u> | <u>Title</u> | <u>Term Expires</u> |
|-----------------|----------------------|---------------------|
| Stan Young | Board of Supervisors | January 2005 |
| Gary See | Board of Supervisors | January 2005 |
| Marc Lindeen | Board of Supervisors | January 2007 |
| Carol McCulley | County Auditor | January 2005 |
| Ana Lorber | County Treasurer | January 2007 |
| Bernice Wallace | County Recorder | January 2007 |
| Ken Krabill | County Sheriff | January 2005 |
| Michael Riepe | County Attorney | January 2007 |
| Gary Dustman | County Assessor | January 2005 |



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Independent Auditors' Report

To the Officials of Henry County:

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Henry County, as of and for the year ended June 30, 2004, which collectively comprise the County's basic financial statements listed in the table of contents. These financial statements are the responsibility of Henry County's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with U.S. generally accepted auditing standards, Chapter 11 of the Code of Iowa, and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards and provisions require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Henry County at June 30, 2004, and the respective changes in financial position and cash flows, where applicable, for the year then ended in conformity with U.S. generally accepted accounting principles.

As described in Note 16 to the financial statements, during the year ended June 30, 2004, Henry County adopted Governmental Accounting Standards Board Statement No. 34, Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments; Statement No. 37, Basic Financial Statements - and Management's Discussion and Analysis; for State and Local Governments: Omnibus; and Statement No. 38, Certain Financial Statement Note Disclosures; Statement No. 41, Budgetary Comparison Schedule - Perspective Differences; and Interpretation No. 6, Recognition and Measurement of Certain Liabilities and Expenditures in Governmental Fund Financial Statements.

In accordance with Government Auditing Standards, we have also issued our report dated January 6, 2005 on our consideration of Henry County's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations and contracts. This report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

Management's Discussion and Analysis and budgetary comparison information on pages 4 through 10 and 34 through 36 are not required parts of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. We did not audit the information and express no opinion on it.

Our audit was performed for the purpose of forming an opinion on the financial statements that collectively comprise Henry County's basic financial statements. We previously audited, in accordance with the standards referred to in the second paragraph of this report, the financial statements for the year ended June 30, 2002 (which is not presented herein) and expressed a qualified opinion on those financial statements because they lacked the general fixed asset account group. The financial statements for the year ended June 30, 2003 and 2001 (none of which are presented herein) were audited by other auditors who expressed qualified opinions on those financial statements. The supplementary information included in Schedules 1 through 5 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

Theobald, Donohue & Thompson, P.C.

Mt. Pleasant, Iowa
January 6, 2005

MANAGEMENT'S DISCUSSION AND ANALYSIS

Management of Henry County provides this Management's Discussion and Analysis of its financial statements. This narrative overview and analysis of the financial activities is for the fiscal year ended June 30, 2004. We encourage readers to consider this information in conjunction with the County's financial statements, which follow.

Because Henry County is implementing new reporting standards for this fiscal year, with significant changes in content and structure, much of the information is not easily comparable to prior years. However, in future years, comparisons will be more meaningful and will go further in explaining the County's financial position and results of operations.

FINANCIAL HIGHLIGHTS

- County governmental fund revenue increased 12.5%, or approximately \$1,192,000, from 2003 to 2004. Property and other county taxes decreased approximately \$385,366 and intergovernmental revenue increased approximately \$954,199.
- County program expenses were 4.0 %, or approximately \$405,000, more in 2004 than in 2003. Public safety expense increased approximately \$177,000 and Government services to residents increased \$168,000.
- The County's net assets increased 3.2%, or approximately \$169,000, at June 30, 2004.

USING THIS ANNUAL REPORT

The annual report consists of a series of financial statements and other information, as follows:

Management's Discussion and Analysis introduces the basic financial statements and provides an analytical overview of the County's financial activities.

The Government-wide Financial Statements consist of a Statement of Net Assets and a Statement of Activities. These provide information about the activities of Henry County as a whole and present an overall view of the County's finances.

The Fund Financial Statements tell how governmental services were financed in the short term as well as what remains for future spending. Fund financial statements report Henry County's operations in more detail than the government-wide statements by providing information about the most significant funds. The remaining statements provide financial information about activities for which Henry County acts solely as an agent or custodian for the benefit of those outside of the county government (Agency Funds).

The financial statements also include notes that explain some of the information in the statements and provide more detailed data. The statements are followed by a section of required supplementary information that further explains and supports the financial statements with a comparison of the County's budget for the year.

Other Supplementary Information provides detailed information about the non-major Special Revenue and the individual Agency Funds.

REPORTING THE COUNTY AS A WHOLE

The Statement of Net Assets and the Statement of Activities

One of the most important questions asked about the County's finances is, "Is the County as a whole better off or worse off as a result of the year's activities?" The Statement of Net Assets and the Statement of Activities report information about the County as a whole and about its activities in a way that helps answer this question. These statements include all assets and liabilities using the accrual basis of accounting and the economic resources measurement focus which is similar to the accounting used by most private-sector companies. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

The Statement of Net Assets presents all of the County's assets and liabilities, with the difference between the two reported as "net assets." Over time, increases or decreases in the County's net assets may serve as a useful indicator of whether the financial position of the County is improving or deteriorating.

The Statement of Activities presents information showing how the County's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the event or change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will not result in cash flows until future fiscal periods.

The County's governmental activities are displayed in the Statement of Net Assets and the Statement of Activities. Governmental activities include public safety and legal services, physical health and social services, mental health, county environment and education, roads and transportation, government services to residents, administration, non-program activities and capital projects. Property tax and state and federal grants finance most of these activities.

Fund Financial Statements

The County has two kinds of funds:

1) Governmental funds account for most of the County's basic services. These focus on how money flows into and out of those funds, and the balances left at year-end that are available for spending. These governmental funds include: 1) the General Fund, 2) the Special Revenue Funds such as Mental Health, Rural Service, and Secondary Roads, and 3) the Capital Projects Fund. These funds are reported using the current financial resources measurement focus and the modified accrual basis of accounting, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed, short-term view of the County's general governmental operations and the basic services it provides. Governmental fund information helps one determine whether there are more or fewer financial resources that can be spent in the near future to finance the County's programs.

The required financial statements of the governmental funds include a balance sheet and a statement of revenues, expenditures and changes in fund balances.

2) Fiduciary funds are used to report assets held in a trust or agency capacity for others and cannot be used to support the County's own programs. These fiduciary funds include Agency Funds that account for E911 surcharge, emergency management services, and the County Assessor to name a few.

The required financial statements of the fiduciary funds include a statement of fiduciary assets and liabilities. A summary reconciliation between the government-wide financial statements and the fund financial statements follows the fund financial statements.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

As noted earlier, net assets may serve over time as a useful indicator of financial position.

The County's combined net assets increased from \$26.2 million to \$26.8 million mainly due to additions to property and equipment. Our analysis below focuses on the net assets and changes in net assets of the County's governmental activities.

Net Assets of Governmental Activities (Expressed in Thousands)

| | June 30, | |
|--|------------------|---------------|
| | <u>2004</u> | <u>2003</u> |
| Current and other assets | \$ 10,563 | 10,216 |
| Capital assets | <u>21,770</u> | <u>21,187</u> |
| Total assets | <u>32,333</u> | <u>31,403</u> |
| Long-term debt outstanding | 499 | 120 |
| Other liabilities | <u>5,072</u> | <u>5,189</u> |
| Total liabilities | <u>5,571</u> | <u>5,309</u> |
| Net assets: | | |
| Invested in capital assets, net of related debt | 21,770 | 21,187 |
| Restricted | 4,791 | 4,038 |
| Unrestricted | <u>201</u> | <u>869</u> |
| Total net assets | <u>\$ 26,762</u> | <u>26,094</u> |

Net assets of the County's governmental activities increased by 2.6 % (\$26.8 million compared to \$26.2 million). The largest portion of the County's net assets is the invested in capital assets (e.g., land, infrastructure, buildings, and equipment). Unrestricted net assets—the part of net assets that can be used to finance day-to-day operations without constraints established by debt covenants, enabling legislation, or other legal requirements—decreased from approximately \$869,000 at June 30, 2003 to approximately \$201,000 at the end of this year, a decrease of 76.9 %.

Changes in Net Assets of Governmental Activities

| | Year Ended June 30, | |
|--|---------------------|------------|
| | 2004 | 2003 |
| Revenues: | | |
| Program revenues: | | |
| Charges for service and sales | \$ 787,498 | 705,440 |
| Operating grants and contributions | 3,636,948 | 3,330,624 |
| Capital grants and contributions | 929,271 | - |
| General revenues: | | |
| Property tax | 4,392,019 | 4,202,078 |
| Grants and contributions not restricted by purpose | 22,896 | - |
| Unrestricted investment earnings | 82,151 | 106,483 |
| Other general revenues | 1,849,431 | 1,233,622 |
| Total revenues | 11,700,214 | 9,578,247 |
| Program expenses: | | |
| Public safety and legal services | 2,054,546 | 1,808,178 |
| Physical health and social services | 680,599 | 819,266 |
| Mental health | 1,942,949 | 2,115,734 |
| County environment and education | 691,840 | 627,944 |
| Roads and transportation | 3,333,803 | 2,852,000 |
| Government services to residents | 636,620 | 507,507 |
| Administration or general government | 1,422,087 | 906,120 |
| Non-program | 270,212 | 552,388 |
| Total expenses | 11,032,656 | 10,189,137 |
| Increase (decrease) in net assets | \$ 667,558 | (610,890) |

The County's total revenues increased by 22.2 % (\$2,121,967). The total cost of all programs and services increased by 8.3 % (\$843,519). With this modest growth in revenues and decrease in expenses, the County did cover this year's costs.

Revenues for governmental activities increased by approximately \$1,164,000 over the prior year, with intergovernmental revenue up slightly from the prior year by approximately \$954,199, or less than 27 percent.

The cost of all governmental activities this year was \$11 million. However, as shown in the Statement of Activities, the amount that our taxpayers ultimately financed for these activities through County taxes was only \$5.7 million because some of the cost was paid by those who directly benefited from the programs (\$.8 million) or by contributions and grants (\$4.5 million).

THE COUNTY'S INDIVIDUAL MAJOR FUNDS

As the County completed the year, its governmental funds reported a combined fund balance of \$5.4 million, which is \$169,041 more than last year's total of \$5.2 million. The County funds expended approximately \$147,433 less than was received in operating revenues for the year. The following are the major reasons for the changes in fund balances from the prior year:

- General Fund revenues remained consistent when compared to the prior year. However, General Fund expenditures increased by \$405,661. The largest increase was in the administration service area with an increase of \$503,926. The ending fund balance showed an increase from the prior year of \$5,244,000 to approximately \$5,413,000.
- The County has continued to look for ways to effectively manage the cost of mental health services. For the year, expenditures totaled approximately \$1,938,760, a decrease of 8.3 % from the prior year. The Mental Health Fund balance at year end increased by approximately \$223,000 over the prior year to approximately \$813,000.
- Secondary Roads Fund expenditures increased by approximately \$209,551 over the prior year. The increase in expenditures along with the transfer from the rural services fund of \$979,209 resulted in an increase in the Secondary Roads Fund ending balance of approximately \$369,000, or 20.2 %.

BUDGETARY HIGHLIGHTS

In accordance with the Code of Iowa, the Board of Supervisors annually adopts a budget following required public notice and hearing for all funds, except agency funds. Although the budget document presents functional disbursements by fund, the legal level of control is at the aggregated functional level, not at the fund or fund type level. The budget may be amended during the year utilizing similar statutorily prescribed procedures. The County budget is prepared on the cash basis. Over the course of the year, the County amended its operating budget one time. The amendment was made May 27, 2004, and resulted in a decrease in disbursements of \$1,169,561 related primarily to a result of individual departmental response to Board of Supervisors requests to reduce expenditures based on declining revenues and fund balances. A reduction in administration to delay building and grounds projects will affect the 2005 fiscal year budget. No increase in taxes was required.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

At June 30, 2004, Henry County had approximately \$33 million invested in a broad range of capital assets, including public safety equipment, buildings, park facilities, roads and bridges. This amount represents a net increase (including additions and deletions) of approximately \$1.1 million, or 3.3 percent over last year.

Capital Assets of Governmental Activities at Year End (Expressed in Thousands)

| | June 30, | |
|------------------------------------|-----------|--------|
| | 2004 | 2003 |
| Land | \$ 3,702 | 3,702 |
| Buildings, machinery and equipment | 6,045 | 5,503 |
| Work in progress | 1,147 | - |
| Infrastructure | 22,224 | 22,224 |
| Totals | \$ 33,118 | 31,429 |

This year's major additions included (in thousands):

| | |
|-----------------|---------------|
| Motor Grader | \$ 172 |
| Two Dump Trucks | 135 |
| Tractor | 85 |
| | <u>\$ 392</u> |

The County had depreciation expense of \$1,106,166 for the year ended June 30, 2004.

The County's fiscal year 2004 capital budget included \$1,052,647 for capital projects for continued upgrading of secondary roads and bridges. The County has no plans to issue additional debt to finance these projects. Rather, the County will use resources on hand. More detailed information about the County's capital assets is presented in Note 7 to the financial statements.

Long-Term Debt

At June 30, 2004, the County had \$447,200 in notes payable and other debt compared to \$459,529 last year, as shown below.

Outstanding Debt of Governmental Activities at Year-End

| | June 30, | |
|---|-------------------|----------------|
| | 2004 | 2003 |
| Notes payable | \$ 120,348 | 158,150 |
| Landfill Closure and Post Closure Costs | 174,000 | 174,000 |
| Compensated absences | 152,852 | 127,379 |
| Totals | <u>\$ 447,200</u> | <u>459,529</u> |

Debt decreased as a result of payments on notes payable.

The Constitution of the State of Iowa limits the amount of general obligation debt that counties can issue to 5 percent of the assessed value of all taxable property within the County's corporate limits. The County's outstanding general obligation debt is significantly below this \$13 million limit.

Other obligations include accrued vacation pay. More detailed information about the County's long-term liabilities is presented in Note 4 to the financial statements.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

Henry County's elected officials, appointed officials, and county staff considered many factors when arriving at and setting the 2004/2005 fiscal year budget, tax rates, and the fees that will be charged for the various County activities. One of those factors is the economy. The County's population has grown 5.8% from 1990 to 2000, compared to the State of Iowa at 5.4% for the same time period. The persons under 18 and the persons over 65 are very close to the State figures. The median household money income (based on 1997 data) is slightly above the State figure of \$35,427 with a County figure of \$37,047. Other factors considered were county to county valuation comparisons, State cutbacks in revenue to counties, and the overall economy that is growing much more slowly than anticipated.

These indicators were taken into account when adopting the budget for 2004/2005. Amounts available for appropriation are \$4.7 million, an increase of 1.05% over the final 2003/2004 budget. Property tax (benefiting from the 2004 increases in assessed valuations) and intergovernmental receipts (boosted by increased State funding in road use tax funding) are expected to lead this increase. Henry County will use these increases in receipts to finance programs we currently offer and offset the effect we expect inflation to have on program costs. Budgeted disbursements are expected to rise by approximately \$820,000. Increased wage and benefit adjustments, and increases of \$400,000 to county economic development represent the largest increments. The County has added no major new programs or initiatives to the 2004/2005 budget.

CONTACTING THE COUNTY'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, and creditors with a general overview of Henry County's finances and to show the County's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the County Auditor's Office, Henry County, Mt. Pleasant, Iowa.

HENRY COUNTY, IOWA

Statement of Net Assets

June 30, 2004

| | <u>Governmental Activities</u> |
|--|------------------------------------|
| Assets | |
| Cash and pooled investments | \$ 5,165,935 |
| Receivables: | |
| Property tax: | |
| Delinquent | 9,057 |
| Succeeding year | 4,743,228 |
| Interest and penalty on property tax | 21,338 |
| Accounts | 16,113 |
| Accrued interest | 3,331 |
| Due from other governments | 348,408 |
| Inventories | 173,066 |
| Prepaid expenses | 82,078 |
| Capital assets (net of accumulated depreciation) | 21,770,194 |
| Total assets | <u>32,332,748</u> |
| Liabilities | |
| Accounts payable | 224,973 |
| Salaries and benefits payable | 7,213 |
| Due to other governments | 93,268 |
| Accrued interest payable | 3,310 |
| Deferred revenue: | |
| Succeeding year property tax | 4,743,228 |
| Long-term liabilities: | |
| Portion due or payable within one year: | |
| Notes payable | 38,936 |
| Compensated absences | 204,850 |
| Portion due or payable after one year: | |
| Landfill closure and post closure costs | 174,000 |
| Notes payable | 81,412 |
| Total liabilities | <u>5,571,190</u> |
| Net Assets | |
| Invested in capital assets, net of related debt | 21,770,194 |
| Restricted for: | |
| General Supplemental | 27,043 |
| Mental Health | 812,611 |
| Secondary roads | 2,194,521 |
| Resource enhancement and protection | 163,345 |
| Capital projects | 164,470 |
| Rural Services | 192,571 |
| Other purposes | 1,262,451 |
| Unrestricted | 174,352 |
| Total net assets | <u>\$ 26,761,558</u> |

See notes to financial statements.

HENRY COUNTY, IOWA

Statement of Activities

June 30, 2004

| Functions/Programs: | Expenses | Program Revenues | | |
|-------------------------------------|---------------|------------------|---------------|---------------|
| | | Charges for | Operating | Capital |
| | | Service | Grants and | Grants and |
| | | | Contributions | Contributions |
| Governmental activities: | \$ | | | |
| Public safety and legal services | 2,054,546 | 129,698 | 180,940 | - |
| Physical health and social services | 680,599 | 23,884 | 97,290 | - |
| Mental health | 1,942,949 | 310,908 | 985,292 | - |
| County environment and education | 691,840 | 1,229 | - | - |
| Roads and transportation | 3,333,803 | - | 2,362,302 | 929,271 |
| Government services to residents | 636,620 | 268,511 | 10,864 | - |
| Administration | 1,422,087 | 44,159 | 260 | - |
| Non-program | 270,212 | 9,109 | - | - |
| Total | \$ 11,032,656 | 787,498 | 3,636,948 | 929,271 |

General Revenues:

Property and other county tax levied for:

 General purposes

Penalty and interest on taxes

State tax credits

Local option sales tax

Grants and contributions not restricted to
specific purpose

Licenses and permits

Unrestricted investment earnings

Gain on sale of property and equipment

Miscellaneous

Total general revenues

Change in net assets

Net assets beginning of year, as restated

Net assets end of year

See notes to financial statements.

Net (Expense)
Revenue and Changes
in Net Assets

(1,743,908)
(559,425)
(646,749)
(690,611)
(42,230)
(357,245)
(1,377,668)
(261,103)

(5,678,939)

4,392,019
81,985
233,676
642,822

22,896
425
82,151
441,820
448,703

6,346,497

667,558

26,094,000

\$ 26,761,558

HENRY COUNTY, IOWA
Balance Sheet
Governmental Funds
June 30, 2004

| | Special Revenue | | | |
|--------------------------------------|-----------------|---------------|----------------|-----------------|
| | General | Mental Health | Rural Services | Secondary Roads |
| <u>Assets</u> | | | | |
| Cash and pooled investments | \$ 786,349 | 881,995 | 192,048 | 1,876,252 |
| Receivables: | | | | |
| Property tax: | | | | |
| Delinquent | 9,057 | - | - | - |
| Succeeding year | 2,957,829 | 828,795 | 956,604 | - |
| Interest and penalty on property tax | 16,341 | 2,537 | 2,460 | - |
| Accounts | 8,770 | 359 | - | 4,372 |
| Accrued interest | 3,321 | - | - | - |
| Due from other governments | 43,799 | 47,938 | - | 205,329 |
| Due from other funds | 26,042 | - | - | 2,230 |
| Inventories | - | - | - | 173,066 |
| Prepaid expenditures | 82,078 | - | - | - |
| Total assets | \$ 3,933,586 | 1,761,624 | 1,151,112 | 2,261,249 |
| <u>Liabilities and Fund Balances</u> | | | | |
| Liabilities: | | | | |
| Accounts payable | \$ 101,303 | 50,791 | - | 43,545 |
| Salaries and benefits payable | 4,152 | 663 | - | 2,273 |
| Due to other funds | 1,985 | 491 | - | - |
| Due to other governments | 28,161 | 61,032 | - | 3,947 |
| Deferred revenue: | | | | |
| Succeeding year property tax | 2,957,829 | 828,795 | 956,604 | - |
| Other | 24,471 | 2,302 | 1,937 | 2 |
| Compensated absences | 29,147 | 4,939 | - | 16,961 |
| Total liabilities | 3,147,048 | 949,013 | 958,541 | 66,728 |
| Fund balances: | | | | |
| Reserved for: | | | | |
| Prepaid expenditures | 82,078 | - | - | - |
| Inventories | - | - | - | 173,066 |
| Resource enhancement and protection | 163,345 | - | - | - |
| Debt service | - | - | - | - |
| Unreserved, reported in: | | | | |
| General fund | 541,115 | - | - | - |
| Special revenue fund | - | 812,611 | 192,571 | 2,021,455 |
| Capital projects fund | - | - | - | - |
| Total fund balances | 786,538 | 812,611 | 192,571 | 2,194,521 |
| Total liabilities and fund balances | \$ 3,933,586 | 1,761,624 | 1,151,112 | 2,261,249 |

See notes to financial statements.

| Capital Projects | Nonmajor Special Revenue | Total |
|---------------------|--------------------------------|------------|
| 164,470 | 1,236,643 | 5,137,757 |
| - | - | 9,057 |
| - | - | 4,743,228 |
| - | - | 21,338 |
| - | 2,612 | 16,113 |
| - | 10 | 3,331 |
| - | 51,342 | 348,408 |
| - | 2,382 | 30,654 |
| - | - | 173,066 |
| - | - | 82,078 |
| 164,470 | 1,292,989 | 10,565,030 |

| | | |
|---|--------|-----------|
| - | 29,334 | 224,973 |
| - | 125 | 7,213 |
| - | - | 2,476 |
| - | 128 | 93,268 |
| - | - | 4,743,228 |
| - | - | 28,712 |
| - | 951 | 51,998 |
| - | 30,538 | 5,151,868 |

| | | |
|---------|-----------|------------|
| - | - | 82,078 |
| - | - | 173,066 |
| - | - | 163,345 |
| - | - | - |
| - | - | 541,115 |
| | 1,262,451 | 4,289,088 |
| 164,470 | - | 164,470 |
| 164,470 | 1,262,451 | 5,413,162 |
| 164,470 | 1,292,989 | 10,565,030 |

HENRY COUNTY, IOWA
Reconciliation of the Balance Sheet - Governmental Funds
to the Statement of Net Assets
June 30, 2004

Total governmental fund balances (page 15) **\$ 5,413,162**

Amounts reported for governmental activities in the Statement of Net Assets are different because:

Capital assets used in governmental activities are not current financial resources and, therefore, are not reported in the funds. The cost of assets is \$33,117,440 and the accumulated depreciation is \$11,347,246. 21,770,194

Other long-term assets are not available to pay for current period expenditures and therefore are deferred in the funds. 28,712

Long-term liabilities, including compensated absences payable and accrued interest are not due and payable in the current period, and therefore, are not reported in the funds. (450,510)

Net assets of governmental activities (page 11) **\$ 26,761,558**

See notes to financial statements.

HENRY COUNTY, IOWA
Statement of Revenues, Expenditures and
Changes in Fund Balances
Governmental Funds
Year Ended June 30, 2004

| | General | Special Revenue | | |
|---|--------------|-----------------|----------------|-----------------|
| | | Mental Health | Rural Services | Secondary Roads |
| Revenues: | | | | |
| Property and other county tax | \$ 2,650,459 | 800,001 | 929,121 | - |
| Interest and penalty on property tax | 65,711 | - | - | - |
| Intergovernmental | 393,993 | 1,027,741 | 93,140 | 2,362,302 |
| Licenses and permits | 425 | - | - | - |
| Charges for service | 401,099 | 310,908 | 1,229 | - |
| Use of money and property | 79,719 | 2,285 | - | - |
| Miscellaneous | 409,126 | 20,650 | - | - |
| Total revenues | 4,000,532 | 2,161,585 | 1,023,490 | 2,362,302 |
| Expenditures: | | | | |
| Operating: | | | | |
| Public safety and legal services | 1,981,379 | - | - | - |
| Physical health and social services | 582,909 | - | - | - |
| Mental health | - | 1,938,760 | - | - |
| County environment and education | 317,088 | - | - | - |
| Roads and transportation | - | - | - | 2,624,860 |
| Governmental services to residents | 382,751 | - | - | - |
| Administration | 1,327,113 | - | - | - |
| Non-program | 34,129 | - | - | - |
| Debt service | - | - | - | - |
| Capital projects | 20,312 | - | 42,546 | 347,234 |
| Total expenditures | 4,645,681 | 1,938,760 | 42,546 | 2,972,094 |
| Excess (deficiency) of revenues over (under) expenditures | (645,149) | 222,825 | 980,944 | (609,792) |
| Other financing sources (uses): | | | | |
| Sale of capital assets | - | - | - | - |
| Operating transfers in | - | - | - | 979,209 |
| Operating transfers out | - | - | (979,209) | - |
| Total other financing sources (uses) | - | - | (979,209) | 979,209 |
| Net change in fund balances | (645,149) | 222,825 | 1,735 | 369,417 |
| Fund balances beginning of year | 1,431,687 | 589,786 | 190,836 | 1,825,104 |
| Fund balances end of year | \$ 786,538 | 812,611 | 192,571 | 2,194,521 |

See notes to financial statements.

| Capital Projects | Nonmajor Special Revenue | Total |
|---------------------|--------------------------------|------------|
| - | 642,822 | 5,022,403 |
| - | - | 65,711 |
| - | 16,344 | 3,893,520 |
| - | - | 425 |
| - | 74,262 | 787,498 |
| - | 147 | 82,151 |
| - | 18,927 | 448,703 |
| - | 752,502 | 10,300,411 |

| | | |
|-----------|-----------|------------|
| - | 3,650 | 1,985,029 |
| - | 91,652 | 674,561 |
| - | - | 1,938,760 |
| - | 313,243 | 630,331 |
| - | - | 2,624,860 |
| - | 292,540 | 675,291 |
| - | 76,576 | 1,403,689 |
| - | 51,082 | 85,211 |
| - | - | - |
| 102,757 | 42,609 | 555,458 |
| 102,757 | 871,352 | 10,573,190 |
| (102,757) | (118,850) | (272,779) |

| | | |
|---|---------|-----------|
| - | 441,820 | 441,820 |
| - | - | 979,209 |
| - | - | (979,209) |
| - | 441,820 | 441,820 |

| | | |
|-----------|-----------|-----------|
| (102,757) | 322,970 | 169,041 |
| 267,227 | 939,481 | 5,244,121 |
| 164,470 | 1,262,451 | 5,413,162 |

HENRY COUNTY, IOWA
Reconciliation of the Statement of Revenues, Expenditures and
Changes in Fund Balances - Governmental Funds
to the Statement of Activities
Year Ended June 30, 2004

Net change in fund balances - total governmental funds (page 15) \$ 169,041

Amounts reported for governmental activities in the Statement of Activities are different because:

Governmental funds report capital outlays as expenditures while governmental activities report depreciation expense to allocate expenditures over the estimated useful lives of the assets. Capital outlay exceeded depreciation expense in the current year as follows:

| | | |
|---|--------------------|---------|
| Expenditures for capital assets | \$ 759,701 | |
| Capital assets contributed by the Iowa Department of Transportation | 929,271 | |
| Depreciation expense | <u>(1,106,166)</u> | 582,806 |

Because some of the revenues will not be collected for several months after the County's year end, they are not considered available revenues and are deferred in the governmental funds.

| | | |
|--------------|---------------|--------|
| Property tax | 12,438 | |
| Other | <u>16,274</u> | 28,712 |

Repayment of principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Assets. Current year debt repayments are as follows:

| | | |
|----------------|--|--------|
| Note principal | | 37,802 |
|----------------|--|--------|

Some expenses reported in the Statement of Activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds, as follows:

| | | |
|----------------------------|--------------|------------------|
| Compensated absences | (152,852) | |
| Interest on long-term debt | <u>2,049</u> | <u>(150,803)</u> |

Change in net assets of governmental activities (page 12) \$ 667,558

HENRY COUNTY, IOWA
Statement of Fiduciary Assets and Liabilities
Agency Funds
June 30, 2004

Assets

| | |
|------------------------------|-------------------|
| Cash and pooled investments: | |
| County Treasurer | \$ 1,087,736 |
| Other County officials | 70,022 |
| Receivables: | |
| Property tax: | |
| Delinquent | 46,596 |
| Succeeding year | 13,543,776 |
| Accounts | 2,609 |
| Accrued interest | 117 |
| Due from other funds | 7,463 |
| Due from other governments | 152 |
| Total assets | <u>14,758,471</u> |

Liabilities

| | |
|-------------------------------|-------------------|
| Accounts payable | 20,737 |
| Salaries and benefits payable | 507 |
| Due to other funds | 35,641 |
| Due to other governments | 14,677,336 |
| Trusts payable | 20,465 |
| Compensated absences | 3,785 |
| Total liabilities | <u>14,758,471</u> |

| | |
|------------|-------------|
| Net Assets | <u>\$ -</u> |
|------------|-------------|

HENRY COUNTY, IOWA

Notes to Financial Statements June 30, 2004

Note 1 – Summary of Significant Accounting Policies

Henry County, Iowa is a political subdivision of the State of Iowa and operates under the Home Rule provisions of the Constitution of Iowa. The County operates under the Board of Supervisors form of government. Elections are on a partisan basis. Other elected officials operate independently with the Board of Supervisors. These officials are the Auditor, Treasurer, Recorder, Sheriff, and Attorney. The County provides numerous services to citizens, including law enforcement, health and social services, parks and cultural activities, planning and zoning, roadway construction and maintenance, and general administrative services.

The County's financial statements are prepared in conformity with accounting principles generally accepted in the United States of America as prescribed by the Governmental Accounting Standards Board.

A. Reporting Entity

For financial reporting purposes, Henry County, Iowa has included all funds, organizations, agencies, boards, commissions and authorities. The County has also considered all potential component units for which it is financially accountable and other organizations for which the nature and significance of their relationship with the County are such that exclusion would cause the County's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body, and (1) the ability of the County to impose its will on that organization or (2) the potential for the organization to provide specific benefits to, or impose specific financial burdens on the County. The County has no component units which meet the Governmental Accounting Standards Board criteria.

Jointly Governed Organizations - The County also participates in several jointly governed organizations that provide goods or services to the citizenry of the county but do not meet the criteria of a joint venture since there is no ongoing financial interest or responsibility by the participating governments. The County Board of Supervisors are members of or appointed representatives to the following boards and commissions: County Assessor's Conference Board, County Emergency Management Commission and County Joint E-911 Service Board. Financial transactions of these organizations are included in the County's financial statements only to the extent of the County's fiduciary relationship with the organization and, as such, are reported in the Agency Funds of the County.

(continued)

HENRY COUNTY, IOWA

Notes to Financial Statements (Continued) June 30, 2004

Note 1 – Summary of Significant Accounting Policies (Continued)

A. Reporting Entity (Continued)

The County also participates in the following additional jointly governed organizations established pursuant to Chapter 28E of the Code of Iowa: Intergovernmental Agreement, Great River Regional Waste Authority, Multi-County Cooperative Child Support Agreement, Intergovernmental Transportation, Case Management, and certain other organizations.

B. Basis of Presentation

Government-wide Financial Statements – The Statement of Net Assets and the Statement of Activities report information on all of the nonfiduciary activities of the County and its component units. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities are supported by property tax, intergovernmental revenues, and other nonexchange transactions.

The Statement of Net Assets presents the County's nonfiduciary assets and liabilities, with the difference reported as net assets. Net assets are reported in three categories.

Invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation and reduced by outstanding balances for bonds, notes, and other debt that are attributed to the acquisition, construction, or improvement of those assets.

Restricted net assets result when constraints placed on net asset use are either externally imposed or imposed by law through constitutional provisions or enabling legislation.

Unrestricted net assets consist of net assets that do not meet the definition of the two preceding categories. Unrestricted net assets often have constraints on resources that are imposed by management, but can be removed or modified.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Property tax and other items not properly included among program revenues are reported instead as general revenues.

(continued)

HENRY COUNTY, IOWA

Notes to Financial Statements (Continued)

June 30, 2004

Note 1 – Summary of Significant Accounting Policies (Continued)

B. Basis of Presentation (Continued)

Fund Financial Statements – Separate financial statements are provided for governmental funds and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements. All remaining governmental funds are aggregated and reported as nonmajor governmental funds.

The County reports the following major governmental funds:

The General Fund is the general operating fund of the County. All general tax revenues and other receipts that are not allocated by law or contractual agreement to some other fund are accounted for in this fund. From the fund are paid the general operating expenses, the fixed charges and the capital improvement costs that are not paid from other funds.

Special Revenue:

The Mental Health Fund is used to account for property tax and other revenues designated to be used to fund mental health, mental retardation, and developmental disabilities services.

The Rural Services Fund is used to account for property tax and other revenues to provide services which are primarily intended to benefit those persons residing in the county outside of incorporated city areas.

The Secondary Roads Fund is used to account for secondary road construction and maintenance.

The Capital Projects Fund is used to account for all resources used in the acquisition and construction of capital facilities.

Additionally, the County reports the following funds:

Fiduciary Funds are used to account for assets held by the County as an agent for individuals, private organizations, certain jointly governed organizations, other governmental units and/or other funds.

(continued)

HENRY COUNTY, IOWA

Notes to Financial Statements (Continued)

June 30, 2004

Note 1 – Summary of Significant Accounting Policies (Continued)

C. Measurement Focus and Basis of Accounting

The government-wide and fiduciary fund financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property tax is recognized as revenue in the year for which it is levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been satisfied.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the County considers revenues to be available if they are collected within 60 days after year end.

Property tax, intergovernmental revenues (shared revenues, grants, and reimbursements from other governments) and interest are considered to be susceptible to accrual. All other revenue items are considered to be measurable and available only when cash is received by the County.

Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, principal and interest on long-term debt, claims and judgments and compensated absences are recorded as expenditures only when payment is due. Capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term debt and acquisitions under capital leases are reported as other financing sources.

Under the terms of grant agreements, the County funds certain programs by a combination of specific cost-reimbursement grants, categorical block grants and general revenues. Thus, when program expenses are incurred, there are both restricted and unrestricted net assets available to finance the program. It is the County's policy to first apply cost-reimbursements grant resources to such programs, followed by categorical block grants, and then by general revenues.

The County maintains its financial records on the cash basis. The financial statements of the County are prepared by making memorandum adjusting entries to the cash basis financial records.

(continued)

HENRY COUNTY, IOWA

Notes to Financial Statements (Continued) June 30, 2004

Note 1 – Summary of Significant Accounting Policies (Continued)

D. Assets, Liabilities, and Fund Equity

The following accounting policies are followed in preparing the combined balance sheet:

Cash, Pooled Investments and Cash Equivalents – The cash balances of most County funds are pooled and invested. Interest earned on investments is recorded in the General Fund, unless otherwise provided by law. Investments are stated at fair value except for the investment in the Iowa Public Agency Trust, which is valued at amortized cost and non-negotiable certificates of deposit which are stated at cost.

Property Tax Receivable – Property tax in governmental funds is accounted for using the modified accrual basis of accounting.

Property tax receivable is recognized in these funds on the levy or lien date, which is the date that the tax asking is certified by the County Board of Supervisors. Delinquent property tax receivable represents unpaid taxes for the current and prior years. The succeeding year property tax receivable represents taxes certified by the Board of Supervisors to be collected in the next fiscal year for the purposed set out in the budget for the next fiscal year. By statute, the Board of Supervisors is required to certify its budget in March of each year for the subsequent fiscal year. However, by statute, the tax asking and budget certification for the following fiscal year becomes effective on the first day of that year. Although the succeeding year property tax receivable has been recorded, the related revenue is deferred in both the government-wide and fund financial statements and will not be recognized as revenue until the year for which it is levied.

Property tax revenue recognized in these funds become due and collectible in September and March of the fiscal year with a 1 ½ % per month penalty for delinquent payments; is based on January 1, 2002 assessed property valuations; is for the tax accrual period July 1, 2003 through June 30, 2004 and reflects the tax asking contained in the budget certified by the County Board of Supervisors in March, 2003.

Interest and Penalty on Property Tax Receivable – Interest and penalty on property tax receivable represents the amount of interest and penalty that was due and payable but has not been collected.

(continued)

HENRY COUNTY, IOWA

Notes to Financial Statements (Continued)

June 30, 2004

Note 1 – Summary of Significant Accounting Policies (Continued)

D. Assets, Liabilities, and Fund Equity (Continued)

Due From and Due to Other Funds – During the course of its operations, the County has numerous transactions between funds. To the extent that certain transactions between funds had not been paid or received as of June 30, 2004, balances of interfund amounts receivable or payable have been recorded in the fund financial statements.

Due from Other Governments – Due from other governments represents amounts due from the State of Iowa, various shared revenues, grants and reimbursements from other governments.

Inventories – Inventories are valued at cost using the first-in, first-out method. Inventories in the Special Revenue Funds consist of expendable supplies held for consumption. Inventories of governmental funds are recorded as expenditures when consumed rather than when purchased.

Capital Assets – Capital assets, which include property, equipment and vehicles, and infrastructure assets (e.g. roads, bridges, curbs, gutters, sidewalks, and similar items which are immovable and of value only to the government), are reported in the governmental activities column in the government-wide Statement of Net Assets. Capital assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized. Reportable capital assets are defined by the County as assets with initial, individual costs in excess of the following thresholds and estimated useful lives in excess of two years.

| <u>Asset Class</u> | <u>Amount</u> |
|------------------------------------|---------------|
| Infrastructure | \$65,000 |
| Land | 5,000 |
| Buildings, machinery and equipment | 5,000 |

Property and equipment of the County is depreciated using the straight line method over the following estimated useful lives:

| <u>Asset Class</u> | <u>Estimated Useful Lives (In Years)</u> |
|------------------------------------|--|
| Infrastructure | 10 – 65 |
| Buildings, machinery and equipment | 3 – 50 |

(continued)

HENRY COUNTY, IOWA

Notes to Financial Statements (Continued)

June 30, 2004

Note 1 – Summary of Significant Accounting Policies (Continued)

D. Assets, Liabilities, and Fund Equity (Continued)

Due to Other Governments – Due to other governments represents taxes and other revenues collected by the County and payments for services which will be remitted to other governments.

Trusts Payable – Trusts payable represents amounts due to others which are held by various County officials in fiduciary capacities until the underlying legal matters are resolved.

Deferred Revenue – Although certain revenues are measurable, they are not available. Available means collectible within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period. Deferred revenue in the governmental fund financial statements represent the amount of assets that have been recognized, but the related revenue has not been recognized since the assets are not collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period. Deferred revenue consists of the succeeding year property tax receivable as well as property tax receivable and other receivables not collected within sixty days after year end. Deferred revenue on the statement of net assets consists of succeeding year property tax receivable that will not be recognized as revenue until the year for which it is levied.

Compensated Absences – County employees accumulate a limited amount of earned but unused vacation hours for subsequent use or for payment upon termination, death, or retirement. A liability is recorded when incurred in the government-wide and fiduciary fund financial statements. A liability for these amounts is reported in governmental fund financial statements only for employees that have resigned or retired. The compensated absences liability has been computed based on rates of pay in effect at June 30, 2004. The compensated absences liability attributable to the governmental activities will be paid primarily by the General, Mental Health, Rural Services, and Secondary Roads Funds.

Long-term Liabilities – In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities Statement of Net Assets. In the governmental fund financial statements, the face amount of debt issued is reported as other financing sources. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

Fund Equity – In the governmental fund financial statements, reservations of fund balance are reported for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

(continued)

HENRY COUNTY, IOWA

Notes to Financial Statements (Continued) June 30, 2004

Note 1 – Summary of Significant Accounting Policies (Continued)

E. Budgets and Budgetary Accounting

The budgetary comparison and related disclosures are reported as Required Supplementary Information. During the year ended June 30, 2004, certain departments exceeded the amounts appropriated.

Note 2 – Cash and Pooled Investments

The County's deposits at June 30, 2004 were entirely covered by federal depository insurance, or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

The County is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the Board of Supervisors; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts; and warrants or improvement certificates of a drainage district.

The County's investments are categorized to give an indication of the level of risk assumed by the County at year end. The County's investments are all Category 1, which means that the investments are insured or registered or the securities are held by the County or its agent in the County's name.

The County had investments in the Iowa Public Agency Investment Trust, which are valued at an amortized cost of \$3,250,370 pursuant to Rule 2a-7 under the Investment Company Act of 1940 and are not subject to risk categorization.

Note 3 – Interfund Transfers

The detail of interfund transfers for the year ended June 30, 2004 is as follows:

| <u>Transfer to</u> | <u>Transfer from</u> | <u>Amount</u> |
|-------------------------------------|------------------------------------|-------------------|
| Special Revenue: Secondary Roads | Special Revenue: Rural Services | <u>\$ 979,209</u> |

Transfers generally move resources from the fund statutorily required to collect the resources to the fund statutorily required to expend the resources.

HENRY COUNTY, IOWA

Notes to Financial Statements (Continued) June 30, 2004

Note 4 – Changes in Long-Term Liabilities

A summary of changes in long-term liabilities for the year ended June 30, 2004 is as follows:

| | Notes Payable | Landfill Closure and Post Closure Costs | Compensated Absences | Total |
|---|------------------|--|-------------------------|---------|
| Balance beginning of year, as restated | \$ 158,150 | 174,000 | 127,379 | 459,529 |
| Increase | - | - | 77,471 | 77,471 |
| Decrease | 37,802 | - | - | 37,802 |
| Balance end of year | 120,348 | 174,000 | 204,850 | 499,198 |
| Due within one year | \$ 38,936 | - | 204,850 | 243,786 |

Note 5 – Due From and Due to Other Funds

Detail of interfund receivables and payables at June 30, 2004 is as follows:

| <u>Receivable Fund</u> | <u>Amount</u> | <u>Payable Fund</u> | <u>Amount</u> |
|------------------------|------------------|---------------------|------------------|
| General | \$ 26,042 | Special Revenue: | |
| | | Mental Health | \$ 246 |
| | | Trust and Agency: | |
| | | Recorder | 11,501 |
| | | Motor Vehicle | 14,295 |
| Special Revenue: | | General | 1,985 |
| Records Management | 397 | Special Revenue: | |
| Electronic Transfer | 1,985 | Recorder | 2,382 |
| Secondary Roads | 2,230 | Mental Health | 245 |
| Agency: | | | |
| Agriculture Extension | <u>7,463</u> | Empowerment | <u>7,463</u> |
| Total | \$ <u>38,117</u> | | \$ <u>38,117</u> |

HENRY COUNTY, IOWA

Notes to Financial Statements (Continued) June 30, 2004

Note 6 – Due to Other Governments

The County purchases services from other governmental units and also acts as a fee and tax collection agent for various governmental units. Tax collections are remitted to those governments in the month following collection. A summary of amounts due to other governments is as follows:

| <u>Fund</u> | <u>Description</u> | <u>Amount</u> |
|------------------------------|--------------------|---------------------|
| General: | Services | <u>\$ 28,161</u> |
| Special Revenue: | | |
| Secondary Road | Services | 3,947 |
| Mental Health | Services | 61,032 |
| Community Betterment | Services | <u>128</u> |
| | | <u>65,107</u> |
| Total for governmental funds | | <u>\$ 93,268</u> |
| Agency: | | |
| County Assessor | Collections | \$ 558,746 |
| Schools | | 8,684,398 |
| Area Schools | | 551,288 |
| Corporations | | 3,418,632 |
| Auto License and Use Tax | | 340,312 |
| Agricultural Extension | | 165,883 |
| All Other | | <u>1,039,212</u> |
| Total for agency funds | | <u>\$14,758,471</u> |

HENRY COUNTY, IOWA

Notes to Financial Statements (Continued) June 30, 2004

Note 7 – Capital Assets

Capital assets activity for the year ended June 30, 2004 was as follows:

| | Beginning Balance (as restated note 16) | Increases | Decreases | Balance End of Year |
|--|--|-----------|-----------|---------------------------|
| Governmental activities: | | | | |
| Capital assets not being depreciated: | | | | |
| Land | \$ 3,702,010 | - | - | 3,702,010 |
| Work in Progress | - | 1,147,207 | - | 1,147,207 |
| Total capital assets not being depreciated | 3,702,010 | 1,147,207 | - | 4,849,217 |
| Capital assets being depreciated: | | | | |
| Buildings, machinery and equipment | 5,502,756 | 541,765 | - | 6,044,521 |
| Infrastructure | 22,223,702 | - | - | 22,223,702 |
| Total capital assets being depreciated | 27,726,458 | 541,765 | - | 28,268,223 |
| Less accumulated depreciation for: | | | | |
| Buildings, machinery and equipment | 2,833,033 | 346,997 | - | 3,180,030 |
| Infrastructure, road network | 7,408,047 | 759,169 | - | 8,167,216 |
| Total accumulated depreciation | 10,241,080 | 1,106,166 | - | 11,347,246 |
| Total capital assets being depreciated, net | 17,485,378 | (564,401) | - | 16,920,977 |
| Governmental activities capital assets, net | \$21,187,388 | 582,806 | - | 21,770,194 |
| Depreciation expense was charged to the following functions: | | | | |
| Governmental activities: | | | | |
| Public safety and legal services | | | \$ | 52,214 |
| Physical health and social services | | | | 6,038 |
| County environment and education | | | | 26,058 |
| Roads and transportation | | | | 966,358 |
| Governmental services to residents | | | | 3,335 |
| Administration | | | | 11,329 |
| Non-program | | | | 23,081 |
| Capital Projects | | | | 17,753 |
| Total depreciation expense – governmental activities | | | \$ | 1,106,166 |

HENRY COUNTY, IOWA

Notes to Financial Statements (Continued) June 30, 2004

Note 8 – Operating Leases

Henry County Iowa leases facilities for its operations. The terms and payments are as follows:

| <u>Lessor</u> | <u>Lease Terms</u> | <u>Monthly Leases</u> |
|---------------------------|--------------------|-----------------------|
| Mertens Rental Properties | 6/1/04 to 5/31/05 | \$575 |

Note 9 – Risk Management

Henry County is a member of the Iowa Communities Assurance Pool, as allowed by Chapter 331.301 of the Code of Iowa. The Iowa Communities Assurance Pool (Pool) is a local government risk-sharing pool with over 490 members from various governmental entities throughout the State of Iowa. The Pool was formed in August, 1986, for the purpose of managing and funding third-party liability claims against its members. The Pool provides coverage and protection in the following categories: general liability, automobile liability, automobile physical damage, public officials' liability, police professional liability, property and inland marine. There have been no reductions in insurance coverage from prior years.

Each member's annual casualty contributions to the Pool fund current operations and provide capital. Annual operating contributions are those amounts necessary to fund, on a cash basis, the Pool's general and administrative expenses, claims, claims expenses and reinsurance expenses due and payable in the current year, plus all or any portion of any deficiency in capital. Capital contributions are made during the first six years of membership and are maintained to equal 300 percent of the total current members' basis rates or to comply with the requirements of any applicable regulatory authority having jurisdiction over the Pool.

The Pool also provides property coverage. Members who elect such coverage made annual operating contributions which are necessary to fund, on a cash basis, the Pool's general and administrative expenses and reinsurance premiums, all of which are due and payable in the current year, plus all or any portion of any deficiency in capital. Any year-end operating surplus is transferred to capital. Deficiencies in operations are offset by transfers from capital and, if insufficient, by the subsequent year's member contributions.

The County's property and casualty contributions to the risk pool are recorded as expenditures from its operating funds at the time of payment to the risk pool. The County's annual contributions to the Pool for the year ended June 30, 2004, were \$152,051.

(continued)

HENRY COUNTY, IOWA

Notes to Financial Statements (Continued) June 30, 2004

Note 9 – Risk Management (Continued)

The Pool uses reinsurance and excess risk-sharing agreements to reduce its exposure to large losses. The Pool retains general, automobile, policy professional, and public officials' liability risks up to \$250,000 per claim. Claims exceeding \$250,000 are reinsured in an amount not to exceed \$1,750,000 per claim and \$5,000,000 in aggregate per year. For members requiring specific coverage from \$2,000,000 to \$15,000,000 such excess coverage is also reinsured. All property risks including automobile physical damage are also reinsured on an individual-member basis.

The Pool's intergovernmental contract with its members provides that in the event a casualty claim or series of claims exceeds the amount of risk-sharing protection provided by the member's risk-sharing certificate, or in the event that a series of casualty claims exhausts total members' equity plus any reinsurance and any excess risk-sharing recoveries, then payment of such claims shall be the obligation of the respective individual member. The County does not report a liability for losses in excess of reinsurance or excess risk-sharing recoveries unless it is deemed probable that such losses have occurred and the amount of such loss can be reasonably estimated. Accordingly, at June 30, 2004, no liability has been recorded in the County's financial statements. As of June 30, 2004, settled claims have not exceeded the risk pool or reinsurance company coverage since the Pool's inception.

Members agree to continue membership in the Pool for a period of not less than one full year. After such period, a member who has given 60 days' prior written notice may withdraw from the Pool. Upon withdrawal, payments for all claims and claims expenses become the sole responsibility of the withdrawing member, regardless of whether a claim was incurred or reported prior to the member's withdrawal. Members withdrawing within the first six years of membership may receive a partial refund of their capital contributions. If a member withdraws after the sixth year, the member is refunded 100% of its capital contribution, however, the refund is reduced by an amount equal to the annual operating contributions, which the withdrawing member would have made for the one year period following withdrawal.

The County also carries commercial insurance purchased from other insurers for coverage associated with workers compensation and employee blanket bond in the amount of \$500,000 and \$100,000, respectively. The County assumes liability for any deductibles and claims in excess of coverage limitations. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

HENRY COUNTY, IOWA

Notes to Financial Statements (Continued) June 30, 2004

Note 10 – Closure and Post-Closure Care Costs

State and federal laws and regulations require the County to place a final cover on its landfill site when it stops accepting waste and to perform certain maintenance and monitoring functions at the site for thirty years after closure. The closure and post-closure care costs have been estimated at \$435,000. Henry County's portion of the estimated liability is \$174,000 which represents 40% of the total estimated cost. A liability has been reported on these costs in the statement of net assets. Actual costs may be higher due to inflation, changes in technology, or changes in regulations. The County budgets annually for the costs of testing at the landfill.

Note 11 – Garbage and Recycling Service Agreement

The County entered into a garbage and recycling services agreement with Whaley Waste System during the year ended May 14, 2002. The agreement is a five-year contract effective July 1, 2002. The County will pay \$6,850 per month plus disposal charges.

Note 12 – Pension and Retirement Benefits

The County contributes to the Iowa Public Employees Retirement System (IPERS) which is a cost-sharing multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits which are established by State statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS, P.O. Box 9117, Des Moines, Iowa, 50306-9117.

Plan members are required to contribute 3.70% of their annual covered salary and the County is required to contribute 5.75% of the annual covered payroll except for law enforcement employees, in which case the percentages are 4.99% and 7.48% respectively. For the year ended June 30, 2003, the contribution rates for law enforcement employees and the County were 5.37% and 8.05%, respectively, and for the year ended June 30, 2002, the contribution rates for law enforcement employees and the County were 5.50% and 8.25%, respectively. Contribution requirements are established by State statute. The County's contribution to IPERS for the years ended June 30, 2004, 2003, and 2002 were \$204,479, \$213,346, and \$203,698 respectively, equal to the required contributions for each year.

HENRY COUNTY, IOWA

Notes to Financial Statements (Continued) June 30, 2004

Note 13 – Disposal Capacity Assurance Agreement

The County entered into a contract on June 28, 1995 with the Great River Regional Waste Authority for the assurance of landfill capacity. The County will pay an annual sum of \$15,063.91 for fifteen years. The annual payments will be due July 1st of each year, with the first payment due July 1, 1995, and the final payment due July 1, 2009. In return, the Authority will reserve 1,250 tons of rural residential waste disposal capacity per year from July 1, 1995, to June 30, 2010.

Note 14 – Commitments

Henry County has pledged \$122,468 to the Mt. Pleasant Library and Community Center. The amount will be paid over a three year period starting in the fiscal year ending June 30, 2004.

The County has the following commitments at June 30, 2004:

| <u>Project</u> | <u>Vendor</u> | <u>Amount</u> |
|----------------------------|----------------------|---------------|
| Conservation Building Roof | Yaley Construction | \$ 3,939 |
| Bridge replacement | Cunningham-Reis | 58,627 |
| Grading | Delong-Keith | 78,627 |
| HMA Pavement | Fred Carlson Company | 661,528 |
| Motor grader | Altorfer | 291,634 |
| Designing Security System | Brooks Borg Skiles | 15,500 |

Note 15 – Economic Development Revolving Loan

Henry County created an Economic Development Revolving Loan Fund on March 30, 2004. Pursuant to the Development Plan entered into by Henry County Industrial Development Corporation and the City of Mt. Pleasant, Iowa, pursuant to the Urban Renewal Plan of the City of Mt. Pleasant, and all applicable State and Federal Laws, including Iowa Code Chapters 368 and 403, Henry County Industrial Development Corporation has acquired and developed Crossroads Industrial Park to provide sites for industrial development. The amount of \$300,000 from the County's receipt of local sales and service tax receipts will be made available for purposes of economic development through issuance of a loan to the Henry County Industrial Development Corporation. Also, the amount of \$100,000 is made available for the creation of an Economic Development Revolving Loan Fund.

HENRY COUNTY, IOWA

Notes to Financial Statements (Continued) June 30, 2004

Note 16 – Prospective Accounting Change

Governmental Accounting Standards Board Interpretation No. 6, Recognition and Measurement of Certain Liabilities and Expenditures in Governmental Fund Financial Statements was implemented during the year ended June 30, 2004. The interpretation modifies when compensated absence liabilities are recorded under the modified accrual basis of accounting.

Governmental Accounting Standards Board Statement No. 34, Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments; Statement No. 37, Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments: Omnibus; Statement No. 38, Certain Financial Statements Note Disclosures; and Statement No. 41, Budgetary Comparison Schedule – Perspective Differences were implemented during fiscal year 2004. The statements create new basic financial statements for reporting the County’s financial activities. The financial statements now include government-wide financial statements prepared on an accrual basis of accounting and fund financial statements which present information for individual major funds rather than by fund type. Non-major special revenue funds are presented in total in one column.

The government-wide financial statements report the County’s governmental activities. Beginning net assets for governmental activities has been restated to include capital assets, and the changes in assets and liabilities at July 1, 2003 resulting from the conversion to the accrual basis of accounting.

| | <u>Total</u> |
|---|--------------------------|
| Net assets, June 30, 2003, as previously reported | \$ 5,244,121 |
| GASB 34 adjustments: | |
| Capital assets, net of accumulated depreciation of \$10,241,080 | 21,187,388 |
| Change in long-term liabilities | (332,150) |
| Change in current liabilities | <u>(5,359)</u> |
| Net assets, July 1, 2003, as restated | <u>\$ 26,094,000</u> |

Note 17 – Notes Payable

The County entered into a loan agreement with the Department of Economic Development dated February 2, 1990. The following is a schedule of the future note payments including interest at 3% per annum:

| <u>Year Ending June 30,</u> | <u>Principal</u> | <u>Interest</u> | <u>Total</u> |
|---------------------------------|-----------------------|------------------|--------------------|
| 2005 | \$ 38,936 | 3,611 | 42,547 |
| 2006 | 40,104 | 2,443 | 42,547 |
| 2007 | <u>41,308</u> | <u>1,239</u> | <u>42,547</u> |
| Total | <u>\$ 120,348</u> | <u>7,293</u> | <u>127,641</u> |

HENRY COUNTY, IOWA
 Budgetary Comparison Schedule of
 Receipts, Disbursements and Changes in Fund Balances -
 Budget and Actual (Cash Basis) - All Governmental Funds
 Required Supplementary Information
 Year Ended June 30, 2004

| | Actual | Less Funds not Required to be Budgeted |
|--|----------------------------|---|
| Receipts: | | |
| Property and other County tax | \$ 5,113,101 | - |
| Interest and penalty on property tax | 196,216 | - |
| Intergovernmental | 3,803,168 | - |
| Licenses and permits | 20,033 | - |
| Charges for services | 738,181 | - |
| Use of money and property | 79,765 | - |
| Miscellaneous | 587,194 | - |
| Total receipts | <u>10,537,658</u> | <u>-</u> |
| Disbursements: | | |
| Public safety and legal services | 1,969,248 | - |
| Physical health and social services | 737,163 | - |
| Mental health | 1,975,754 | - |
| County environment and education | 921,869 | - |
| Roads and transportation | 2,711,440 | - |
| Governmental services to residents | 389,489 | - |
| Administration | 1,334,053 | - |
| Non-program | 33,457 | - |
| Capital projects | 568,464 | - |
| Total disbursements | <u>10,640,937</u> | <u>-</u> |
| Excess (deficiency) of receipts over (under) disbursements | (103,279) | - |
| Other financing sources net | <u>441,820</u> | <u>-</u> |
| Excess (deficiency) of receipts and other financing sources over (under) disbursements and other financing uses | 338,541 | - |
| Balance beginning of year | <u>4,776,490</u> | <u>-</u> |
| Balance end of year | <u><u>\$ 5,115,031</u></u> | <u><u>-</u></u> |

See accompanying independent auditors' report

| Net | Budgeted Amounts | | Final to Actual |
|------------|------------------|------------|-----------------|
| | Original | Final | Net Variance |
| 5,113,101 | 4,863,843 | 4,863,843 | 249,258 |
| 196,216 | 15,600 | 15,600 | 180,616 |
| 3,803,168 | 4,052,528 | 4,052,528 | (249,360) |
| 20,033 | 3,550 | 16,977 | 3,056 |
| 738,181 | 571,500 | 571,500 | 166,681 |
| 79,765 | 127,310 | 127,310 | (47,545) |
| 587,194 | 25,500 | 512,082 | 75,112 |
| 10,537,658 | 9,659,831 | 10,159,840 | 377,818 |

| | | | |
|------------|------------|------------|-----------|
| 1,969,248 | 1,917,711 | 2,013,505 | 44,257 |
| 737,163 | 699,834 | 918,192 | 181,029 |
| 1,975,754 | 2,364,901 | 2,364,901 | 389,147 |
| 921,869 | 613,586 | 971,880 | 50,011 |
| 2,711,440 | 2,819,500 | 2,819,500 | 108,060 |
| 389,489 | 446,176 | 450,226 | 60,737 |
| 1,334,053 | 968,657 | 1,449,557 | 115,504 |
| 33,457 | 45,300 | 57,065 | 23,608 |
| 568,464 | 1,052,647 | 1,053,047 | 484,583 |
| 10,640,937 | 10,928,312 | 12,097,873 | 1,456,936 |

| | | | |
|-----------|-------------|-------------|-----------|
| (103,279) | (1,268,481) | (1,938,033) | 1,834,754 |
| 441,820 | - | 441,820 | - |

| | | | |
|-----------|-------------|-------------|-------------|
| 338,541 | (1,268,481) | (1,496,213) | 1,834,754 |
| 4,776,490 | 3,490,460 | 3,490,460 | (1,286,030) |
| 5,115,031 | 2,221,979 | 1,994,247 | 3,120,784 |

HENRY COUNTY, IOWA
 Budgetary Comparison Schedule -
 Budget to GAAP Reconciliation
 Required Supplementary Information
 Year Ended June 30, 2004

| | Governmental Funds | | |
|------------------------------|--------------------|------------------------|------------------------------|
| | Cash Basis | Accrual Adjustments | Modified Accrual Basis |
| Revenues | \$ 10,537,658 | (237,247) | 10,300,411 |
| Expenditures | 10,640,937 | (46,139) | 10,594,798 |
| Net | (103,279) | (191,108) | (294,387) |
| Other financing sources, net | 441,820 | - | 441,820 |
| Beginning fund balances | 4,776,490 | 467,631 | 5,244,121 |
| Ending fund balances | \$ 5,115,031 | 276,523 | 5,391,554 |

See accompanying independent auditors' report

HENRY COUNTY, IOWA

Notes to Required Supplementary Information- Budgetary Reporting

June 30, 2004

In accordance with the Code of Iowa, the County Board of Supervisors annually adopts a budget on the cash basis following required public notice and hearing for all funds, except blended component units and agency funds, and appropriates the amount deemed necessary for each of the different County offices and departments. The budget may be amended during the year utilizing similar statutorily prescribed procedures. Encumbrances are not recognized on the cash basis budget and appropriations lapse at year-end.

Formal and legal budgetary control is based upon 10 major classes of expenditures known as functions, not by fund or fund type. These 10 functions are: public safety and legal services, physical health and social services, mental health, county environment and education, roads and transportation, governmental services to residents, administration, non-program, debt service, and capital projects. Function disbursements required to be budgeted include disbursements for the General Fund, Special Revenue Funds, and Capital Projects Funds. Although the budget document presents functions disbursements by fund, the legal level of control is at the aggregated function level, not at the fund or fund type level. Legal budgetary control is also based upon the appropriation to each office or department. During the year, a budget amendment increased budgeted disbursements by \$1,169,561. The budget amendment is reflected in the final budgeted amounts.

In addition, annual budgets are similarly adopted in accordance with the Code of Iowa by the appropriate governing body as indicated: for the County Extension Office by the County Agricultural Extension Council, for the County Assessor by the County Conference Board, for the E911 System by the Joint E911 Service Board and for Emergency Management Services by the County Emergency Management Commission.

During the year ended June 30, 2004, disbursements in certain departments exceeded the amounts appropriated.

HENRY COUNTY, IOWA
Combining Balance Sheet
Nonmajor Special Revenue Funds
June 30, 2004

| | County Recorder's Records Management | Community Betterment | Economic Development |
|------------------------------------|---|-------------------------|-------------------------|
| <u>Assets</u> | | | |
| Cash and pooled investments | \$ 9,278 | 1,013,706 | 128,577 |
| Receivables: | | | |
| Accounts receivable | - | 2,412 | - |
| Accrued interest | 10 | - | - |
| Due from other funds | 397 | - | - |
| Due from other governments | - | 51,342 | - |
| Total assets | <u>\$ 9,685</u> | <u>1,067,460</u> | <u>128,577</u> |
| <u>Liabilities and Fund Equity</u> | | | |
| Liabilities: | | | |
| Accounts payable | \$ - | 27,296 | - |
| Salaries and benefits payable | - | 125 | - |
| Due to other governments | - | 128 | - |
| Compensated absences | - | 951 | - |
| Total liabilities | <u>-</u> | <u>28,500</u> | <u>-</u> |
| Fund equity: | | | |
| Unreserved | <u>9,685</u> | <u>1,038,960</u> | <u>128,577</u> |
| Total liabilities and fund equity | <u>\$ 9,685</u> | <u>1,067,460</u> | <u>128,577</u> |

See accompanying independent auditors' report

| Conservation Land Acquisition Trust | Recorders Electronic Transfer Trust | Total |
|--|--|-----------|
| 62,356 | 22,726 | 1,236,643 |
| 200 | - | 2,612 |
| - | - | 10 |
| - | 1,985 | 2,382 |
| - | - | 51,342 |
| 62,556 | 24,711 | 1,292,989 |

| | | |
|-------|---|--------|
| 2,038 | - | 29,334 |
| - | - | 125 |
| - | - | 128 |
| - | - | 951 |
| 2,038 | - | 30,538 |

| | | |
|--------|--------|-----------|
| 60,518 | 24,711 | 1,262,451 |
| 62,556 | 24,711 | 1,292,989 |

HENRY COUNTY, IOWA
 Combined Schedule of Revenues, Expenditures and
 Changes in Fund Balances
 Nonmajor Special Revenue Funds
 Year Ended June 30, 2004

| | County Recorder's Records Management | Community Betterment | Economic Development |
|--|---|-------------------------|-------------------------|
| Revenues: | | | |
| Property and other County tax | \$ - | 642,822 | - |
| Intergovernmental | - | 8,970 | - |
| Charges for service | 4,530 | 23,884 | - |
| Use of money and property | 110 | - | - |
| Miscellaneous | - | 18,737 | - |
| Total revenues | 4,640 | 694,413 | - |
| Expenditures: | | | |
| Operating: | | | |
| Public safety and legal services | - | 3,650 | - |
| Physical health and social services | - | 86,020 | - |
| County environment and education | - | - | 313,243 |
| Governmental services to residents | 8,000 | 284,540 | - |
| Administration | - | 76,576 | - |
| Non-program | - | 51,082 | - |
| Capital projects | - | - | - |
| Total expenditures | 8,000 | 501,868 | 313,243 |
| Excess (deficiency) of revenues over (under) expenditures | (3,360) | 192,545 | (313,243) |
| Other financing sources: | | | |
| Sale of capital assets | - | - | 441,820 |
| Total other financing sources | - | - | 441,820 |
| Excess (deficiency) of revenues and other financing sources over (under) expenditures | (3,360) | 192,545 | 128,577 |
| Fund balances beginning of year | 13,045 | 846,415 | - |
| Fund balances end of year | \$ 9,685 | 1,038,960 | 128,577 |

See accompanying independent auditors' report.

| Decat Fund | Conservation Land Acquisition Trust | Recorders Electronic Transfer Trust | Total |
|---------------|--|--|---------|
| - | - | - | 642,822 |
| 7,374 | - | - | 16,344 |
| - | 21,174 | 24,674 | 74,262 |
| - | - | 37 | 147 |
| - | 190 | - | 18,927 |
| 7,374 | 21,364 | 24,711 | 752,502 |

| | | | |
|-------|--------|---|---------|
| - | - | - | 3,650 |
| 5,632 | - | - | 91,652 |
| - | - | - | 313,243 |
| - | - | - | 292,540 |
| - | - | - | 76,576 |
| - | - | - | 51,082 |
| - | 42,609 | - | 42,609 |
| 5,632 | 42,609 | - | 871,352 |

| | | | |
|-------|----------|--------|-----------|
| 1,742 | (21,245) | 24,711 | (118,850) |
|-------|----------|--------|-----------|

| | | | |
|---|---|---|---------|
| - | - | - | 441,820 |
| - | - | - | 441,820 |

| | | | |
|---------|----------|--------|-----------|
| 1,742 | (21,245) | 24,711 | 322,970 |
| (1,742) | 81,763 | - | 939,481 |
| - | 60,518 | 24,711 | 1,262,451 |

HENRY COUNTY, IOWA
Combining Schedule of Fiduciary Assets and Liabilities
Agency Funds
June 30, 2004

| | County Offices | | | | Agricultural |
|-------------------------------|----------------|-----------------|----------------|-----------------|---------------------|
| | County Auditor | County Recorder | County Sheriff | County Facility | Extension Education |
| <u>Assets</u> | | | | | |
| Cash and pooled investments | | | | | |
| County Treasurer | \$ - | - | - | - | 2,248 |
| Other County officials | 4,480 | 22,517 | 36,490 | 6,535 | - |
| Receivables: | | | | | |
| Property tax: | | | | | |
| Delinquent | - | - | - | - | 477 |
| Succeeding year | - | - | - | - | 155,695 |
| Accounts | - | - | - | - | - |
| Accrued interest | - | - | - | - | - |
| Due from other funds | - | - | - | - | 7,463 |
| Due from other governments | - | - | - | - | - |
| Total assets | \$ 4,480 | 22,517 | 36,490 | 6,535 | 165,883 |
| <u>Liabilities</u> | | | | | |
| Accounts payable | - | - | - | - | - |
| Salaries and benefits payable | - | - | - | - | - |
| Due to other funds | - | 13,883 | - | - | - |
| Due to other governments | - | 8,634 | 36,490 | - | 165,883 |
| Trusts payable | 4,480 | - | - | 6,535 | - |
| Compensated absences | - | - | - | - | - |
| Total liabilities | \$ 4,480 | 22,517 | 36,490 | 6,535 | 165,883 |

(continued)

See accompanying independent auditors' report

| County Assessor | Schools | Community Colleges | Corporations | Townships |
|--------------------|-----------|-----------------------|--------------|-----------|
| 203,409 | 130,933 | 8,807 | 54,785 | 1,629 |
| - | - | - | - | - |
| 1,098 | 27,063 | 1,676 | 14,307 | 202 |
| 358,528 | 8,526,402 | 540,805 | 3,349,540 | 100,346 |
| 344 | - | - | - | - |
| - | - | - | - | - |
| - | - | - | - | - |
| - | - | - | - | - |
| 563,379 | 8,684,398 | 551,288 | 3,418,632 | 102,177 |

| | | | | |
|---------|-----------|---------|-----------|---------|
| 341 | - | - | - | - |
| 507 | - | - | - | - |
| - | - | - | - | - |
| 558,746 | 8,684,398 | 551,288 | 3,418,632 | 102,177 |
| - | - | - | - | - |
| 3,785 | - | - | - | - |
| 563,379 | 8,684,398 | 551,288 | 3,418,632 | 102,177 |

HENRY COUNTY, IOWA

Combining Schedule of Fiduciary Assets and Liabilities (Continued)

Agency Funds

June 30, 2004

| | E911 Surcharge | Special Assessments | Fire Districts | Advance Tax | Auto License and Use Tax |
|-----------------------------|-------------------|------------------------|-------------------|----------------|-----------------------------------|
| <u>Assets</u> | | | | | |
| Cash and pooled investments | | | | | |
| County Treasurer | \$ 184,772 | 2,240 | 1,641 | 9,450 | 354,607 |
| Other County officials | - | - | - | - | - |
| Receivables: | | | | | |
| Property tax: | | | | | |
| Delinquent | - | - | 267 | - | - |
| Succeeding year | - | - | 95,040 | - | - |
| Accounts | 2,265 | - | - | - | - |
| Accrued interest | - | - | - | - | - |
| Due from other funds | - | - | - | - | - |
| Due from other governments | - | - | - | - | - |
| Total assets | \$ 187,037 | 2,240 | 96,948 | 9,450 | 354,607 |

| | | | | | |
|-------------------------------|------------|-------|--------|-------|---------|
| <u>Liabilities</u> | | | | | |
| Accounts payable | \$ 6,814 | - | - | - | - |
| Salaries and benefits payable | - | - | - | - | - |
| Due to other funds | - | - | - | - | 14,295 |
| Due to other governments | 180,223 | 2,240 | 96,948 | - | 340,312 |
| Trusts payable | - | - | - | 9,450 | - |
| Compensated absences | - | - | - | - | - |
| Total liabilities | \$ 187,037 | 2,240 | 96,948 | 9,450 | 354,607 |

See accompanying independent auditor's report

| County Hospital | Civil Defense Emergency Management | Tax Sale Redemption Trust | Brucellosis and Tuberculosis Eradication | Empowerment Fund | Total |
|--------------------|---|------------------------------------|---|---------------------|------------|
| 33,223 | 15,677 | 18,651 | 153 | 65,511 | 1,087,736 |
| - | - | - | - | - | 70,022 |
| 1,278 | - | - | 7 | 221 | 46,596 |
| 417,420 | - | - | - | - | 13,543,776 |
| - | - | - | - | - | 2,609 |
| - | - | - | - | 117 | 117 |
| - | - | - | - | - | 7,463 |
| - | 152 | - | - | - | 152 |
| 451,921 | 15,829 | 18,651 | 160 | 65,849 | 14,758,471 |

| | | | | | |
|---------|--------|--------|-----|--------|------------|
| - | 223 | - | - | 13,359 | 20,737 |
| - | - | - | - | - | 507 |
| - | - | - | - | 7,463 | 35,641 |
| 451,921 | 15,606 | 18,651 | 160 | 45,027 | 14,677,336 |
| - | - | - | - | - | 20,465 |
| - | - | - | - | - | 3,785 |
| 451,921 | 15,829 | 18,651 | 160 | 65,849 | 14,758,471 |

HENRY COUNTY, IOWA
Combining Schedule of Changes in Fiduciary Assets and Liabilities
Agency Funds
Year Ended June 30, 2004

| | County Offices | | | | Agricultural |
|---------------------------------------|----------------|-----------------|----------------|-----------------|---------------------|
| | County Auditor | County Recorder | County Sheriff | County Facility | Extension Education |
| Assets and Liabilities | | | | | |
| Balances beginning of year | \$ 4,480 | 19,842 | 23,584 | 5,772 | 154,453 |
| Additions: | | | | | |
| Property and other County tax | - | - | - | - | 150,966 |
| E-911 surcharge | - | - | - | - | - |
| State tax credits | - | - | - | - | 15,136 |
| Office fees and collections | - | 229,903 | - | - | - |
| Interest on investments | 63 | - | - | - | - |
| Trusts | - | - | 452,383 | 108,191 | - |
| Assessments, auto license and use tax | - | - | - | - | - |
| Miscellaneous | - | - | - | - | - |
| Total additions | 63 | 229,903 | 452,383 | 108,191 | 166,102 |
| Deductions: | | | | | |
| Agency Remittances: | | | | | |
| To other funds | - | 122,880 | 188,992 | - | - |
| To other governments | - | 104,348 | - | - | 154,672 |
| Cemetery interest paid out | 63 | - | - | - | - |
| Trusts paid out | - | - | 250,485 | 107,428 | - |
| Total deductions | 63 | 227,228 | 439,477 | 107,428 | 154,672 |
| Balances end of year | \$ 4,480 | 22,517 | 36,490 | 6,535 | 165,883 |

(continued)

See accompanying independent auditors' report

| County Assessor | Schools | Community Colleges | Corporations | Townships |
|--------------------|-----------|-----------------------|--------------|-----------|
| 457,006 | 8,847,372 | 603,639 | 3,434,539 | 104,955 |
| 350,202 | 8,339,945 | 527,981 | 3,828,601 | 97,781 |
| - | - | - | - | - |
| 13,885 | 446,719 | 30,141 | 179,989 | 5,762 |
| 1,400 | - | - | - | - |
| - | - | - | - | - |
| - | - | - | - | - |
| - | - | - | - | - |
| - | - | - | - | - |
| 365,487 | 8,786,664 | 558,122 | 4,008,590 | 103,543 |
| - | - | - | - | - |
| 259,114 | 8,949,638 | 610,473 | 4,024,497 | 106,321 |
| - | - | - | - | - |
| - | - | - | - | - |
| 259,114 | 8,949,638 | 610,473 | 4,024,497 | 106,321 |
| 563,379 | 8,684,398 | 551,288 | 3,418,632 | 102,177 |

HENRY COUNTY, IOWA
Combining Schedule of Changes in Fiduciary
Assets and Liabilities (Continued)
Agency Funds
Year Ended June 30, 2004

| Assets and Liabilities | E911 Surcharge | Special Assessments | Fire Districts | Advance Tax |
|---------------------------------------|-------------------|------------------------|-------------------|----------------|
| Balances beginning of year | \$ 296,286 | 5,677 | 125,945 | 2,934 |
| Additions: | | | | |
| Property and other County tax | - | - | 81,638 | - |
| E-911 surcharge | 93,788 | - | - | - |
| State tax credits | - | - | 5,687 | - |
| Office fees and collections | - | - | - | - |
| Interest on investments | 1,554 | - | - | - |
| Trusts | - | - | - | - |
| Assessments, auto license and use tax | - | 47,308 | - | - |
| Miscellaneous | - | - | - | 14,948 |
| Total additions | 95,342 | 47,308 | 87,325 | 14,948 |
| Deductions: | | | | |
| Agency Remittances: | | | | |
| To other funds | - | - | - | - |
| To other governments | 204,591 | 50,745 | 116,322 | 8,432 |
| Cemetery interest paid out | - | - | - | - |
| Trusts paid out | - | - | - | - |
| Total deductions | 204,591 | 50,745 | 116,322 | 8,432 |
| Balances end of year | \$ 187,037 | 2,240 | 96,948 | 9,450 |

See accompanying independent auditors' report

| Auto License and Use Tax | County Hospital | Civil Defense Emergency Management | Tax Sale Redemption Trust | Brucellosis and Tuberculosis Eradication | Empowerment Fund | Total |
|-----------------------------------|--------------------|---|------------------------------------|---|---------------------|------------|
| 350,852 | 457,417 | 26,983 | 25,336 | 120 | 77,092 | 15,024,284 |
| - | 404,188 | - | - | 3,330 | - | 13,784,632 |
| - | - | - | - | - | - | 93,788 |
| - | 21,379 | - | - | 120 | - | 718,818 |
| - | - | - | - | - | - | 231,303 |
| - | - | - | - | - | 1,030 | 2,647 |
| - | - | - | - | - | - | 560,574 |
| 4,139,649 | - | - | - | - | - | 4,186,957 |
| - | - | 52,118 | 1,009,555 | - | 143,187 | 1,219,808 |
| 4,139,649 | 425,567 | 52,118 | 1,009,555 | 3,450 | 144,217 | 20,798,527 |
| - | - | - | - | - | - | 311,872 |
| 4,135,894 | 431,063 | 63,272 | 1,016,240 | 3,410 | 155,460 | 20,394,492 |
| - | - | - | - | - | - | 63 |
| - | - | - | - | - | - | 357,913 |
| 4,135,894 | 431,063 | 63,272 | 1,016,240 | 3,410 | 155,460 | 21,064,340 |
| 354,607 | 451,921 | 15,829 | 18,651 | 160 | 65,849 | 14,758,471 |

HENRY COUNTY, IOWA
 Schedule of Revenues By Source and Expenditures By Function -
 All Governmental Fund
 For the Last Four Years

| | | Modified Accrual Basis | | | |
|--------------------------------------|----|------------------------|------------|-----------|------------|
| | | 2004 | 2003 | 2002 | 2001 |
| Revenues: | | | | | |
| Property and other county tax | \$ | 4,379,581 | 4,764,947 | 4,789,039 | 4,908,811 |
| Interest and penalty on property tax | | 65,711 | 186,253 | 59,776 | 61,110 |
| Intergovernmental | | 4,536,342 | 3,582,143 | 3,831,461 | 3,858,117 |
| Licenses and permits | | 425 | 5,605 | 7,780 | 6,315 |
| Charges for service | | 787,498 | 682,749 | 668,192 | 608,064 |
| Use of money and property | | 82,151 | 106,483 | 240,211 | 453,145 |
| Miscellaneous | | 448,703 | 221,634 | 53,794 | 158,987 |
| Total | \$ | 10,300,411 | 9,549,814 | 9,650,253 | 10,054,549 |
| Expenditures: | | | | | |
| Operating: | | | | | |
| Public safety and legal services | \$ | 1,985,029 | 1,808,178 | 1,660,734 | 1,553,607 |
| Physical health and social services | | 674,561 | 819,266 | 566,556 | 650,277 |
| Mental health | | 1,938,760 | 2,115,734 | 2,134,805 | 2,303,286 |
| County environment and education | | 630,331 | 627,944 | 547,983 | 452,379 |
| Roads and transportation | | 2,640,111 | 2,648,650 | 2,874,376 | 2,439,581 |
| Governmental services to residents | | 675,291 | 507,507 | 395,897 | 363,838 |
| Administration | | 1,410,046 | 906,120 | 838,547 | 942,681 |
| Non-program | | 85,211 | 86,691 | 14,103 | 42,716 |
| Capital projects | | 555,458 | 650,530 | 581,618 | 1,018,733 |
| Total | \$ | 10,594,798 | 10,170,620 | 9,614,619 | 9,767,098 |

See accompanying independent auditors' report.



Theobald, Donohue & Thompson, P.C.

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Independent Auditors' Report on Compliance and on Internal Control over Financial Reporting

To the Officials of Henry County:

We have audited the financial statements of Henry County, Iowa, as of and for the year ended June 30, 2004, and have issued our report thereon dated January 6, 2005. We conducted our audit in accordance with U.S generally accepted auditing standards, Chapter 11 of the Code of Iowa, and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether Henry County's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, and contracts, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under Government Auditing Standards. However, we noted certain immaterial instances of non-compliance that are described in Part III of the accompanying Schedule of Findings.

Comments involving statutory and other legal matters about the County's operations for the year ended June 30, 2004 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the County. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes. Prior year statutory comments have been resolved except for items III-B-04 and III-K-04.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Henry County's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect Henry County's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in Part II of the accompanying Schedule of Findings.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, of the reportable conditions described above, we believe item II-A-04 is a material weakness. Prior year reportable conditions have been resolved except for II-A-04 and II-B-04.

This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of Henry County and other parties to whom Henry County may report. This report is not intended to be and should not be used by anyone other than these specified parties.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of Henry County during the course of our audit. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.

Theobald, Donohue & Thompson, P.C.

Mt. Pleasant, Iowa
January 6, 2005

HENRY COUNTY, IOWA

Schedule of Findings Year Ended June 30, 2004

Part I: Summary of the Independent Auditors' Results:

- (a) An unqualified opinion was issued on the financial statements.
- (b) Reportable conditions in internal control over financial reporting were disclosed by the audit of the financial statements, including a material weakness.
- (c) The audit did not disclose any noncompliance which is material to the financial statements.

(continued)

HENRY COUNTY, IOWA

Schedule of Findings (Continued) Year Ended June 30, 2004

Part II: Findings Related to the Financial Statements:

INSTANCES OF NON-COMPLIANCE:

No matters were reported.

REPORTABLE CONDITIONS:

- II-A-04 Segregation of Duties – During our review of the internal control structure, the existing control procedures are evaluated in order to determine that incompatible duties, from a control standpoint, are not performed by the same employee. This segregation of duties helps to prevent losses from employee error or dishonesty and therefore maximizes the accuracy of the County's financial statements.

Recommendation – We realize that with a limited number of office employees, segregation of duties is difficult. However, each official should review the control procedures of their office to obtain the maximum internal control possible under the circumstances. The official should utilize current personnel to provide additional control through review of financial transactions, reconciliations and reports. Such reviews should be performed by independent persons to the extent possible, and should be evidenced by initials or signatures of the reviewer and the date of the review.

Response – With limited staff, we segregate responsibilities the best we can. With a small office it is sometimes hard to separate certain office functions.

Conclusion – Response accepted.

- II-B-04 County Policies – The County does not have a policy regarding personal use of County property.

Recommendation – The County should create a policy regarding the personal use of County property; this should include telephones, computers and County vehicles. Employees need to understand that these items are the property of the County and not to be used for personal reasons.

Response – We have a policy for the use of the Internet. We will work on preparing a policy for the use of the telephones. There is a verbal understanding that the phones are not to be used for long distance calls unless the employees have their own calling card. The Sheriff's Office has a policy regarding the use of their vehicles.

Conclusion – Response accepted.

(continued)

HENRY COUNTY, IOWA

Schedule of Findings (Continued) Year Ended June 30, 2004

Part II: Findings Related to the Financial Statements (Continued):

II-C-04 Sheriff's Office – During our review of internal control, we noted that the Sheriff's office does not remit all funds to the Treasurer. The Tobacco grant is held in the Sheriff's bank account and used for expenses related to that specific program.

Recommendation – All funds received by any County office should be remitted to the Treasurer for proper recording. Also, expenditures need to be budgeted.

Response – We will remit all funds to the Treasurer.

Conclusion – Response accepted.

(continued)

HENRY COUNTY, IOWA

Schedule of Findings (Continued) Year Ended June 30, 2004

Part III: Other Findings Related to Required Statutory Reporting:

III-A-04 Official Depositories – A resolution naming official depositories has been approved by the Board. The maximum deposit amounts stated in the resolution were not exceeded during the year, except for deposits at Peoples State Bank. The maximum authorized amount of \$100,000 was exceeded by \$10,000. Also, the depository resolution does not have each department with bank accounts listed.

Recommendation – The County should adopt a new resolution that includes a list of each department that has a bank account in amounts sufficient to cover anticipated balances at all approved depositories.

Response – We will adopt a new resolution.

Conclusion – Response accepted.

III-B-04 Certified Budget – Disbursements during the year ended June 30, 2004, did not exceed the amounts budgeted. However, disbursements in certain departments exceeded amounts appropriated.

Recommendation – Chapter 331.434(6) of the Code of Iowa authorizes the Board of Supervisors, by resolution, to increase or decrease appropriations of one office or department by increasing or decreasing the appropriation of another office or department as long as the service area budget is not increased. Such increases or decreases should be made before disbursements are allowed to exceed the appropriation.

Response – This will be more closely monitored and an amendment will be done.

Conclusion – Response accepted.

III-C-04 Questionable Expenditures – We noted no expenditures that may not meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979.

III-D-04 Travel Expense – No expenditures of County money for travel expenses of spouses of County officials or employees were noted.

(continued)

HENRY COUNTY, IOWA

Schedule of Findings (Continued) Year Ended June 30, 2004

Part III: Other Findings Related to Required Statutory Reporting(Continued):

- III-E-04 Business Transactions – Business transactions between the County and County officials, employees, or immediate family members of officials or employees were as follows:

| <u>Name and Business Connection</u> | <u>Transactions Description</u> | <u>Amount</u> |
|-------------------------------------|---------------------------------|---------------|
| Rick's Lawn Mowing (Janitor) | Mowing | \$1,170 |
| Florence Smith (Wife of Janitor) | Janitorial | 2,371 |
| Carolyn Krabill (Wife of Sheriff) | Jail Matron Duties | 12 |
| Becky Reimer (Daughter of Sheriff) | Jail Matron Duties | 261 |
| Doris Onorato (Wife of Deputy) | Jail Matron Duties | 423 |
| Penny Burns (Wife of employee) | Election | 130 |

In accordance with Chapter 331.342 of the Code of Iowa, all of the transactions except Florence Smith do not appear to represent a conflict of interest since totals were less than \$1,500 during the fiscal year. Transactions with Florence Smith may represent a conflict of interest as defined in Chapter 331.342 of the Code of Iowa.

Recommendation – The County should consult legal council to determine the disposition of this matter.

- III-F-04 Bond Coverage – Surety bond coverage of County officials and employees is in accordance with statutory provisions.

- III-G-04 Board Minutes – No transactions were found that we believe should have been approved in the Board minutes but were not. However, certain Board minutes were not signed by a Public Official.

Recommendation – The Board minutes should be signed by a Public Official.

Response – We will sign all minutes to meetings.

Conclusion – Response accepted.

- III-H-04 Deposits and Investments – We noted no instances of non-compliance with deposit and investment provisions of Chapter 12B and Chapter 12C of the Code of Iowa and the County's investment policy.

- III-I-04 Resource Enhancement and Protection Certification – The County properly dedicated property tax revenue to conservation purposes as required by Chapter 455A.19(1)(b) of the Code of Iowa in order to receive the additional REAP funds allocated in accordance with subsections (b)(2) and (b)(3).

(continued)

HENRY COUNTY, IOWA

Schedule of Findings (Continued) Year Ended June 30, 2004

Part III: Other Findings Related to Required Statutory Reporting(Continued):

- III-J-04 County Extension Office – The County Extension Office is operated under the authority of Chapter 176A of the Code of Iowa and serves as an agency of the State of Iowa. This fund is administered by an extension council separate and distinct from County operations and, consequently, is not included in Exhibits A or B.

Disbursements during the year ended June 30, 2004 for the County Extension Office did not exceed the amount budgeted.

- III-K-04 Code of Ordinances – The County does not have a Code of Ordinances compiled every five years.

Recommendation – The Code of Ordinances containing all of the County ordinances in effect should be compiled and published as required by Chapter 331.302(9) of the Code of Iowa.

Response – We are in the process of redoing our zoning ordinance and subdivision ordinance. When this is completed, we will comply with Chapter 331.302(9) of the Code of Iowa.

Conclusion – Response accepted.

HENRY COUNTY, IOWA
Staff

This audit was performed by:

THEOBALD, DONOHUE & THOMPSON, P.C.
Certified Public Accountants
Mt. Pleasant, Iowa

Personnel:

Tom Holtkamp, CPA, Principal

Kerry Voelker, CPA, Staff